

3/23/07

To: Montana Legislators  
Re: Licensing of Specialty Hospitals SB417

One of the ways that physicians and other entrepreneurs have delivered higher quality services at decreased cost to patients and with increased patient satisfaction is through the development of specialty hospitals.

Instead of improving quality of care, hospitals and health corporations have responded by attempting to eliminate their competition. In order to maintain their monopoly status they have claimed:

1. That hospitals use highly profitable services to fund charity care.
2. Nonprofit hospitals provide more charity care than for profit hospitals.
3. Claiming that "charity care" means providing service to the poor.

Do profitable services fund charity care? In the Federal Trade Commission Report, "Hospital Competition and Charity Care" from October 2006 the Bureau of Economics performed thirty-two separate analysis and found that: "Despite the pervasive belief that competition impedes a hospital's ability to offer services to the uninsured and under-insured, there is no significant evidence that increased competition leads to reductions in charity care. In fact, there is evidence that reduced competition leads to higher prices for uninsured patients." Additionally, "the claim that hospitals will use market power to increase services to the poor is unsupported by the data." Surprisingly, they found "evidence that competition and charity care are positively related."

Do nonprofit hospitals provide more charity care than for profit hospitals? In its May 2005 report, "Uncompensated Care and Other Community Benefits," the Government Accountability Office examined this issue. In this report the difference in uncompensated care as a percent of patient operating expenses was surprisingly small and in 20% of the cases nonprofit hospitals provided less uncompensated care than for profit hospitals. Additionally, most of the difference was found in a small number of hospitals in urban areas. Surprisingly, "competition increased outpatient uncompensated care."

Does charity care mean providing care to poor patients? Since 1969 the IRS has not required hospitals to provide care to the uninsured or under-insured to qualify for tax-exempt status as long as other "community benefits" are provided. There are no uniform standards or definitions for charity care and community benefit. The IRS and Congress have allowed hospitals to make their own definitions. Consequently, hospitals have inflated their "community benefit" simply by raising their charges. Typical cost/charge ratios range from 20 - 50%. Another common tactic is to account bad debt as "community benefit." Without standardized definitions and reporting of charity care there has been no accountability to substantiate the billions of dollars of tax benefits received.

The arguments for SB417 are flawed. The unintended consequence of SB417 will be a decrease in community benefit and in quality of care.

Sincerely,  
David Chamberlain M.D.